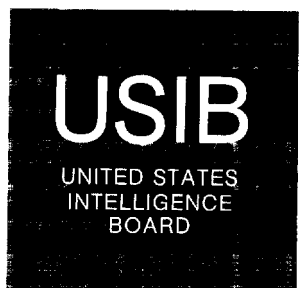


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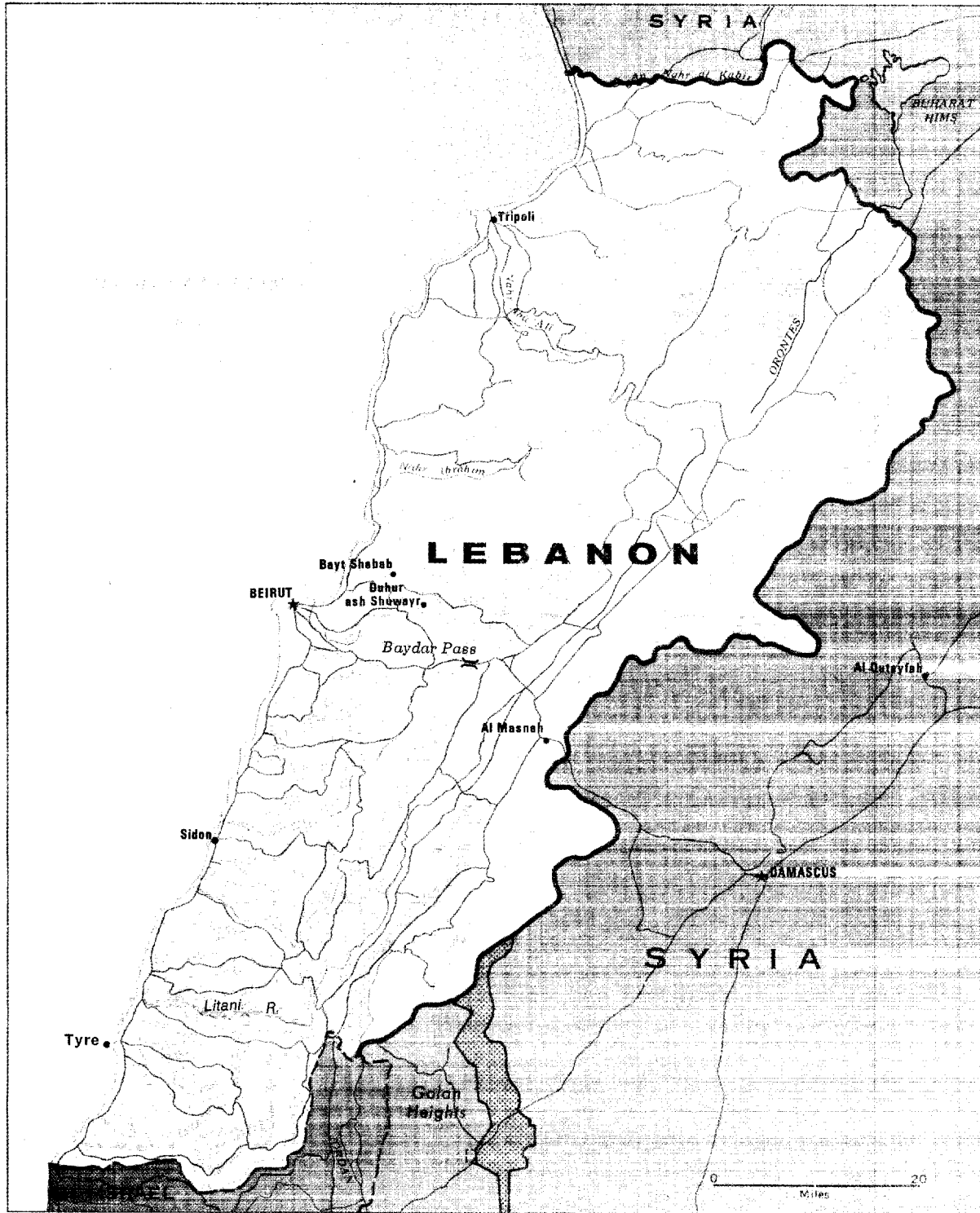
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LEBANON

Fighting flared up in Lebanon yesterday as Christian militiamen seized two villages in the mountainous region east of Beirut. The Christian advances apparently triggered moves by leftist forces on Christian-held territory in the capital. None of the principal combatants has formally renounced the cease-fire, however, and so far the escalation of fighting has not prompted any new advances by Syrian forces or the introduction of additional troops.

The Christians claim they seized the towns of Bayt Shabab and Duhur ash Shuwayr because of persistent mortar shelling from the two villages. There may be some truth, however, in charges from leftist leader Kamal Jumblatt that the Christians are trying to provoke a leftist counterattack in order to draw Syrian regular forces in central Lebanon closer to Beirut.



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Syrian troops based in Beirut apparently have not been involved in the fighting there, which appears to be concentrated in the areas adjacent to the large Christian section of Ashrafiyah. Some Syrian forces in Tripoli, however, appear to have clashed with local leftists and elements of the renegade Muslim army.

The sudden increase in fighting—although clearly a threat to the truce—is largely an extension of the intense political maneuvering. Both the Christians and the leftists want to improve their positions on the ground before the final round of bargaining over President Franjiyah's successor. Moreover, the controversy over Syrian intervention and the stability of the cease-fire are now key issues in the presidential contest.

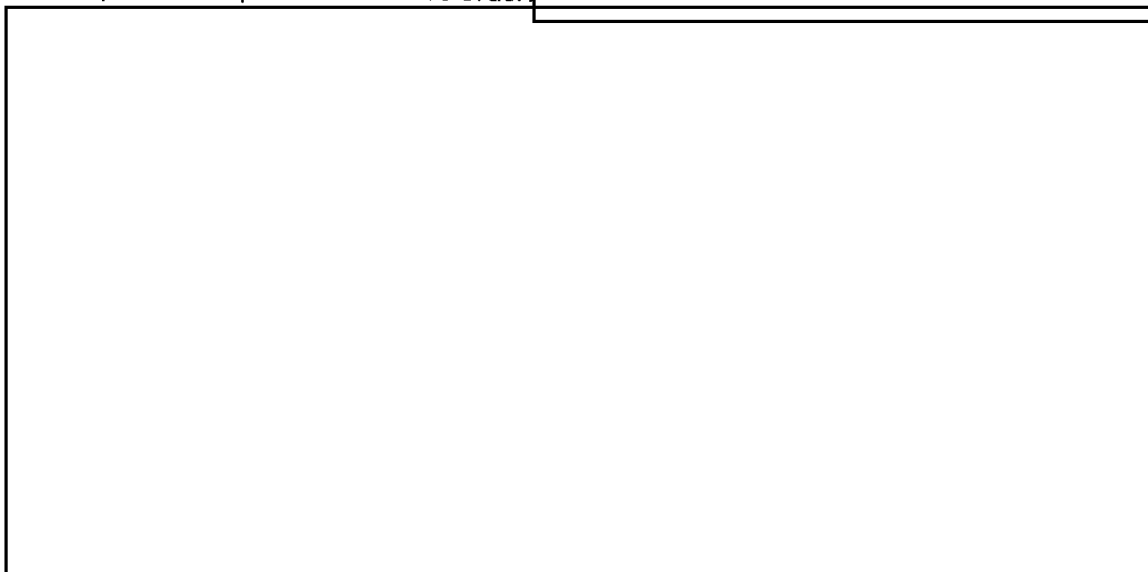
Ilyas Sarkis, the preferred candidate of the Syrians and Maronite Christians, is believed to favor a major peace-keeping role for Syria, while Jumblatt's choice, Raymond Edde, totally rejects the idea.

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Despite Edde's and Jumblatt's strong objections, Muslim support for Syria's continued presence appears to be growing. Prime Minister Karami issued a statement Wednesday praising Damascus and expressing hope that the Syrian forces will remain to help the new president restore order.

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We have no indication of unusual Israeli military activity following Israel's assertion that a Syrian unit—possibly of battalion size—had entered the southern port cities of Sidon and Tyre.

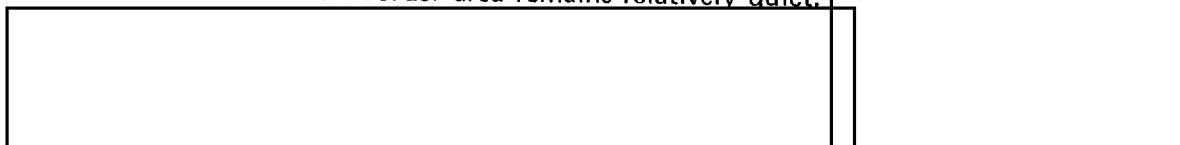
The Israelis may, however, be nearing the limits of their tolerance of Syrian military moves in Lebanon. If the Syrians build up their forces in Sidon and especially in Tyre, which is south of the Litani River, there is a strong possibility that the Israelis will initiate a limited intervention into southern Lebanon.

The Israeli move would be designed to signal the Syrians to halt such reinforcements and confine their actions to a peace-keeping role. Israel would probably seek to avoid a direct military confrontation with any Syrian or other Arab forces already in the south.

The Israelis may calculate that it would be easier to take early action to prevent more Syrians from being introduced, than it would be to secure their withdrawal later.

The Israel-Lebanon border area remains relatively quiet.

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[redacted] An Israeli press report a few weeks ago also indicated that Israeli patrols crossing into Lebanon are closely questioning local villagers about the presence of any Syrian, Palestine Liberation Army, or fedayeen troops in the area. There have been almost no Arab-initiated incidents along the border, no doubt explaining in large part Israeli forbearance. [redacted]

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ITALY

A decision on early parliamentary elections in Italy may be imminent. Prime Minister Moro's cabinet met last night to consider the situation in light of the Socialist Party's call yesterday for all parties to join in asking President Leone to dissolve parliament and schedule an election.

For the past two weeks, the Socialists have been demanding either an election or the replacement of Prime Minister Moro's cabinet by an emergency government that would include the Communists in its parliamentary majority.

The Christian Democrats yesterday offered a compromise proposal under which all parties except the neo-fascists would negotiate a limited agreement on emergency economic measures and the abortion issue. Under this plan, Moro's minority government would remain in office, and the Communists would be considered part of the opposition, despite their consultative role. The Socialists immediately rejected the proposal.

Moro is in an untenable situation, because his cabinet's survival depends on Socialist abstention in parliamentary votes. Although Moro may resign at anytime, he reportedly favors a parliamentary debate, followed by a vote of confidence, in order to force the Socialists to accept publicly sole responsibility for the fall of the government.

The present parliament's term ends in May 1977. The dates most frequently mentioned for an early election are June 13 or 20. Parliament this week passed a law shortening the preparatory period for elections from 70 days to 45; thus dissolution would have to occur in late April in order to hold elections by mid-June.

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UK

British retail prices posted their smallest increase in nearly two years last month, further evidence that the Labor government's pay controls are helping to curb inflation. The news will strengthen the government's bargaining position with the unions over Phase II pay controls, scheduled to take effect in August.

The 0.5-percent increase in retail prices in March was less than half the gains recorded in January and February and the smallest increase since August 1974. Largely due to the government's voluntary pay control program, progress on the inflation front has been steady for several months now. Retail prices increased at an annual rate of 16 percent over the past six months, compared with 28 percent in the preceding six months.

These improvements will be interrupted in April. Newly imposed increases in excise taxes on alcohol and tobacco and planned price increases by some nationalized industries will push up prices. The 8-percent drop in the value of the pound since early March has also increased the cost of imported raw materials and semi-finished goods, which will ultimately be reflected in price increases for consumer goods.

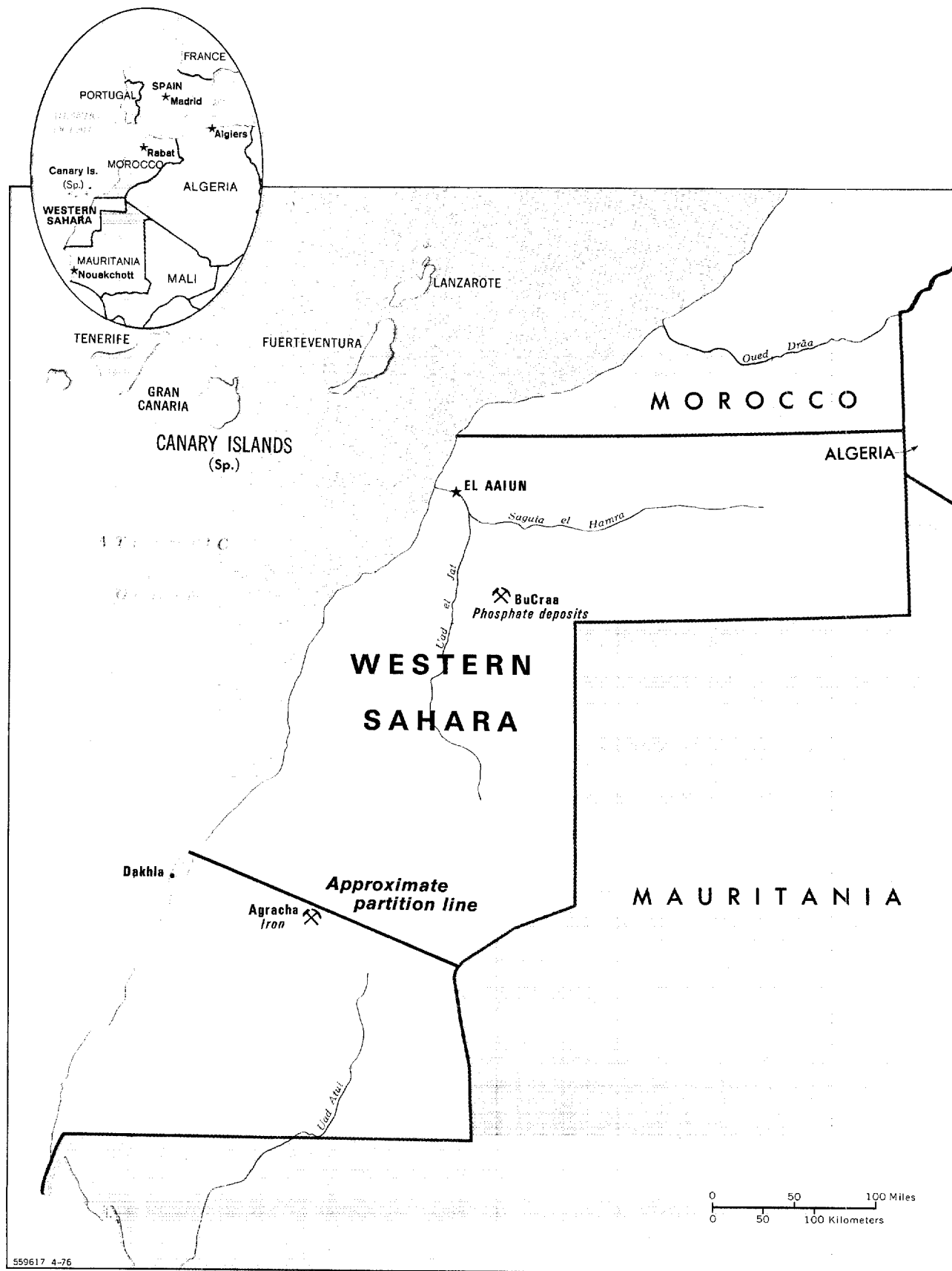
Meanwhile, the government is expected to gain much political mileage from the March inflation figures. The Labor Party will reemphasize the need to intensify the attack on inflation through smaller Phase II wage increases.

The government currently is tying certain tax concessions to a 3-percent limit on wage increases. The present ceiling on wages is 11 percent a year. The Trades Union Congress wants a 5-percent ceiling on pay increases. The figures for March should help the union leaders gain member support for a lower pay ceiling for the next 12 months.

On another front, the UK last month recorded its lowest monthly trade deficit and its first current account surplus in nearly four years. The \$38-million deficit reflects record exports in March, combined with the lowest level of imports in the last four months.

The trade figures were far better than London's financial community had expected. The reaction on the London foreign currency markets was subdued, probably because few traders are likely to believe that the surplus will persist. The pound rose 0.2 percent to \$1.857 after the trade figures were released on Tuesday.

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WESTERN SAHARA

In an attempt to establish formal sovereignty over the Western Sahara, Morocco and Mauritania announced on Wednesday a final agreement to partition the disputed territory. The legal status of the territory will remain contentious, however, because Spain, Algeria, and the UN have not accepted Rabat's contention that it has held adequate consultations with the Saharan people.

A text of the border agreement broadcast over Rabat domestic radio yesterday says that Morocco will acquire the northern two thirds of the territory.

The partition line runs from a point above Dakhla in a straight line southeast to the present Mauritanian border. Rabat would thus acquire the rich phosphate reserves at Bu Craa, while Nouakchott would gain control of the lucrative fishing industry at Dakhla and the unexploited iron ore at Agracha.

The two sides also signed an economic cooperation agreement for joint exploitation of "all natural resources in the Sahara and its territorial waters," according to a joint communique released Wednesday at the end of talks between Mauritanian President Ould Daddah and Moroccan King Hassan. Rabat presumably offered minority participation in the phosphate mining operation in return for joint use of the fish-processing facilities at Dakhla. Algeria is certain to condemn the agreements as illegal.

The Algerians also hope to keep the UN involved in the dispute. They will try to exploit a forthcoming report by a UN envoy who recently visited Spain and Algeria. The envoy's itinerary originally included stops in Morocco and Mauritania as well. Both countries refused to receive him because he met with Polisario Front representatives and inspected Saharan refugee camps during his visit to Algeria.

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USSR

The Soviet harvest failure last year is increasingly causing localized food shortages. There are reports of short supplies in rural areas which in some instances may be severe. Most foods remain adequate in the central areas of major cities.

[redacted] no fresh meat since early February. Butter, flour, onions, potatoes, and other staples also are in short supply. [redacted]

[redacted] never seen the food situation so bad as now" in the Moscow suburbs.

Meat supplies will become increasingly tight; we estimate that total meat production this year may fall by as much as 25 percent below 1975 levels. As a result, the Soviets will be hard pressed to meet even the reduced meat production plan for state-operated packing plants—down 18 percent from last year.

Production from the private sector, about one third of the total, may be down even more. Scattered reports indicate difficulties in obtaining feed for privately held livestock. In order to maintain the size of herds in the socialized sector, collective and state farms may refuse to sell pigs to private households. These piglets from the spring farrowing are a primary source of private-sector meat production.

Some food shortages will ease as the new crop becomes available. The regime could also bolster meat supplies by resorting to imports. [redacted]

[redacted]

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EGYPT

Cairo is studying a new mobilization plan that will permit a reduction of the Egyptian armed forces.

According to the US defense attache, the new plan would reorganize the army into three types of units. The first group of units would be manned to 100 percent of authorized strength, the second group would be kept at half strength, and the third group of units would have only enough personnel to maintain equipment. In the event of war, the first group of units would be the first line of defense until the second and third groups could be mobilized to full strength.

President Sadat has been concerned over the cost of maintaining a large standing army, particularly in view of Egypt's extensive efforts to diversify and modernize military equipment for the army. Earlier reports indicated that the Egyptian Ministry of War was experimenting with a mobilization procedure known as the "Swedish System," presumably patterned after Stockholm's plan whereby no standing tactical units are maintained during peacetime. Egypt's new plan is a more realistic approach to Cairo's defense needs and in some respects resembles the Israeli system, for which the Egyptians have great respect.

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PERU

Pressure by conservative military factions to oust President Morales Bermudez has eased considerably following recent government actions. If Morales Bermudez sticks to a centrist course and keeps radical elements in tow, he can probably ward off efforts to unseat him.

The President's pledge in a major address on March 31 to adopt a more moderate course for the revolution has dampened criticism from center-right elements of the military regime who considered him to be falling under the influence of leftist forces. The government has also taken measures to satisfy those who have complained that the President is doing nothing to halt the leftward drift.

The most important of these steps include:

- The declaration of a "state of emergency" in the mining industry, enabling the government to curb disruptive strikes instigated by left-wing labor unions.
- An announcement that the controversial Plan Tupac Amaru will be redrafted. The radical document, intended to guide the second stage of the revolution, has been strongly attacked by conservative and moderate forces.
- The President's reassurance to the private sector and his encouragement to businessmen.
- The government's decision this week to conclude a settlement compensating the expropriated US Marcona Company.

On the other hand, Morales Bermudez has not yet ousted leftist figures in the cabinet like Prime Minister Fernandez Maldonado, who is likely to remain a focus of dissension in the government. Conservative officers will be watching for signs that leftist influence is on the upswing and plotting could intensify again.

Forces on both the right and the left will continue to struggle for control of the revolution. It remains to be seen whether Morales Bermudez is politically astute enough to chart a course for the Peruvian revolution that will satisfy both sides.



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MEXICO

A controversial piece of legislation on urban land use authored by the outgoing Echeverria administration has sparked the most bitter business-government dispute in recent years.

The disagreement is symptomatic of a long-standing mutual distrust between the leftist Echeverria administration and the business community. The animosity could carry over into the administration of Echeverria's successor, Jose Lopez Portillo, who takes over this December.

The main purpose of the legislation, called the "human settlements" law, is to curb land speculation by giving local governments the power to zone land for "socially beneficial" uses. On its face, the legislation appears to be no more radical than land zoning laws in many other Western countries. Its intent is to establish a system that will take into account an expected huge population growth in urban areas.

The private sector views the legislation as an unconstitutional assault on private ownership of property and part of a trend under Echeverria toward statism. Government proponents say the intent of the legislation is not confiscatory. Its larger aim, they say, is to correct chaotic urban growth by channeling new migration into sparsely settled areas and by placing restraints on land speculators.

The debate has become bitter, with administration and business community spokesmen—mainly a powerful group of Monterrey businessmen—trading wild accusations. Echeverria has accused the Monterrey group of secretly plotting a Chilean-type coup against his government. Businessmen are fighting the legislation through newspaper ads and a rumor campaign, alleging that the government is planning to expropriate private dwellings.

As a result of the proposed law, the business community's initial enthusiasm for Lopez Portillo as the next president has rapidly waned. Lopez Portillo has echoed Echeverria's polemics against the businessmen's "subversive campaign," but he is still too much in the President's shadow to take a different stand.

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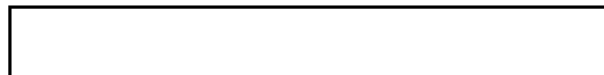
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